

Special Report
Budget Process Practices

August 2001

City Auditor's Office
City of Kansas City, Missouri

August 1, 2001

Honorable Mayor and Members of the City Council:

This special report on the city's budget practices was initiated at the request of the Finance and Audit Committee. The mayor asked the committee to review the city's current budget process and make recommendations to increase the related oversight and decision-making responsibilities of elected officials. This review of the city's budgeting practices and the role of elected officials in the budgeting process was conducted to assist the committee in carrying out the mayor's request. The report focuses on the degree to which the city's budget process incorporates recognized best practices, and the role of the city's elected officials in the process.

A good budget process is ongoing, strategic in nature, and includes a financial and operating plan through which funding decisions are made based on identified goals and priorities. The National Advisory Council on State and Local Budgeting developed a comprehensive set of best practices and essential features relating to governmental budget processes. Kansas City's Office of Management and Budget has incorporated most of these best practices into the city's budget process. However, the overall framework that integrates these practices and provides linkages between budget decisions, management strategies, and achievement of goals needs to be strengthened.

Crucial to strengthening this framework is for elected officials to establish goals addressing issues and choices facing the city. These goals would guide the city's overall direction, and serve as the basis for setting priorities, making decisions, evaluating program performance, and making adjustments. Implementing target-based budgeting would reinforce linkages between the budgeting best practices already incorporated by the Office of Management and Budget and the goals established by elected officials.

The advisory council model emphasizes the need for continual evaluation of program and financial performance in relation to achieving goals. Kansas City's process for monitoring, reporting and adjusting financial performance is well established. A similar process is needed to monitor, report, and adjust program performance. More meaningful performance measures, quarterly program risk assessments, and periodic in-depth reviews would improve the tools elected officials need to provide oversight and to keep informed about emerging issues.

The quality of communication between staff and elected officials also needs to be improved. Elected officials do not believe they are getting complete information from staff. Staff understand that officials want more from them, but find it difficult to determine precisely what information is being sought. Attention should be given to enhancing the partnership between staff and elected officials.

The draft report was sent to the city manager and budget officer on June 27, 2001 for review and comment. Management's response is included as an appendix. We appreciate the courtesy and cooperation extended to us during this project by staff in the Office of Management and Budget and the Finance Department. The audit team for this project was Nancy Hunt and Deborah Jenkins, and Professor Irene S. Rubin, who participated as a paid consultant.

Mark Funkhouser
City Auditor

Special Report: Budget Process Practices

Table of Contents

Introduction	1
Objectives	1
Scope and Methodology	1
Background	2
Budget Process	2
Advisory Council Recommends a Budget Practices Framework	3
Findings and Recommendations	5
Summary	5
Budget Process Incorporates Many Best Practices But Lacks Integration	5
City's Budget Process Meets Most NACSLB Budget Practices	6
Explicit Linkages Could Strengthen the Budget Process	7
Goals and Policies Should Guide Budget Allocations	8
Performance Measures Should Monitor Progress	9
Budget Document Should Be Easier to Read	11
Elected Officials Should Set Policy and Exercise Oversight	11
Roles of Elected Officials Previously Defined	12
Elected Officials Should Establish Goals and Priorities to Guide Decision-Making	12
Outside Facilitation Could Benefit Goal and Priority-Setting Sessions	13
Council-Staff Partnership Requires Communication and Trust	13
Current Budget Process Is Department-Driven and Incremental	14
Target-Based Budgeting Directs Resources Toward Goals and Priorities	15
Additional Tools Could Strengthen Elected Officials' Roles	16
Recommendations	19
Appendices	21
Appendix A: Mayor's Request for Review of City Budget Process	21
Appendix B: Comparison of City's Practices to NACSLB's Recommended Budget Practices	25
Appendix C: Resolution No. 001571	33
Appendix D: City Manager's Response	37

List of Exhibits

1. NACSLB Budget Principles and Elements	3
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Introduction

Objectives

This special report on the city's budget process was conducted pursuant to Article II, Section 13 of the Charter of Kansas City, Missouri, which establishes the Office of the City Auditor and outlines the city auditor's primary duties. The mayor requested that the Finance and Audit Committee review the city's current budget process and make recommendations to increase the related oversight and decision-making responsibilities of elected officials. (See Appendix A.) This project was conducted to assist the committee in carrying out the mayor's request.

This project was designed to answer the following questions:

- To what extent does the city's budget process incorporate recognized best budgeting practices?
- How can the role of elected officials in the budget process be strengthened?

Scope and Methodology

We conducted this project in accordance with applicable government auditing standards. For this report, we followed the general standards, the fieldwork standards for supervision, and the reporting standards.

Research methods included the following:

- Reviewing *Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting*, a comprehensive set of budget process practices issued by the National Advisory Council on State and Local Budgeting (NACSLB) and published by the Government Finance Officers Association (GFOA).
- Interviewing budget officials in the five local governments (Austin, Phoenix, Long Beach, Minneapolis, and Virginia Beach) rated in *Governing* as the best cities in financial management.
- Interviewing city budget officials and reviewing the city's documented budget practices.

- Consulting with Irene S. Rubin, Ph.D., a professor of Public Administration and Political Science at Northern Illinois University who has specialized in the study of municipal government, on the appropriate budgetary role for elected officials in the council-manager form of government.
- Comparing the city's processes and roles to budgeting best practices.

No information was omitted from this report because it was deemed privileged or confidential.

Background

Budget Process

Kansas City's fiscal year is May 1 through April 30. The year-round budgeting process is initiated during the summer and is overseen by the Office of Management and Budget. The process consists of two phases: budget development and review and budget adoption.

Budget Development and Review. The budget process begins when the Office of Management and Budget sends budget instructions to each department, board, commission, and office. Organizational units prepare and submit budget requests based on estimates of work to be performed and costs. The City Council holds meetings to establish their priorities for the upcoming budget year. The Office of Management and Budget reviews the department requests for technical accuracy and adherence to policy and City Council priorities, and recommends a balanced budget to the city manager. The city manager meets with department heads to review their budgets. A draft budget is prepared and presented to the mayor for review and comment.

Budget Adoption. The city manager, with the mayor's comments, submits a preliminary budget for City Council review, and public hearings are held. Departmental hearings are also held with the mayor and City Council to review the programs and budget requests. The City Council is required by Section 89 of the City Charter to adopt, by ordinance, an annual budget at the fourth regular meeting in March. A majority of affirmative votes is required.

Once the mayor and City Council adopt the budget, the appropriations are entered into the city's financial accounting system. The financial

performance of departments is reviewed quarterly and adjustments are made to ensure the city's financial stability. A formal process is followed to amend or change the budget after it is adopted.

Advisory Council Recommends a Budget Practices Framework

The National Advisory Council on State and Local Budgeting's (NACSLB) *Recommended Budget Practices: A Framework For Improved State and Local Government Budgeting* defines a comprehensive framework of budget processes and procedures including principles, elements, and practices. The principles and elements in the following exhibit broadly define the process. We used the NACSLB framework to review the city's current budget preparation, adoption, and implementation methods.

Exhibit 1. NACSLB Budgeting Principles and Elements

Establish Broad Goals to Guide Government Decision Making

- Assess community needs, priorities, challenges, and opportunities
- Identify opportunities and challenges for government services, capital assets, and management
- Develop and disseminate broad goals

Develop Approaches to Achieve Goals

- Adopt financial policies
- Develop programmatic, operating, and capital policies and plans
- Develop programs and services that are consistent with policies and plans
- Develop management strategies

Develop a Budget Consistent with Approaches to Achieve Goals

- Develop a process for preparing and adopting a budget
- Develop and evaluate financial options
- Make choices necessary to adopt a budget

Evaluate Performance and Make Adjustments

- Monitor, measure, and evaluate performance
- Make adjustments as needed

Source: National Advisory Council on State and Local Budgeting, *Recommended Budget Practices: A Framework For Improved State and Local Government Budgeting* (Chicago: Government Finance Officers Association, 1998), p. 5.

The NACSLB framework supports a goal-driven method of budgeting that addresses the planning, development, adoption, and execution stages of the budget. The practices are offered as recommendations that provide a roadmap for governments interested in improving their budget processes.

In an effort to help state and local governments improve their budget processes, the GFOA joined with seven other organizations to create the National Advisory Council on State and Local Budgeting. The advisory council, comprised of financial professionals, government administrators, elected officials, public employee union representatives, and academicians, developed a comprehensive set of budget process best practices. (See Appendix B for a comparison of the city's practices to the NACSLB recommended practices.)

The NACSLB also established five essential characteristics of a good budget process. Such a process:

- Incorporates a long-term perspective;
- Establishes linkages to broad organizational goals;
- Focuses budget decisions on results and outcomes;
- Involves and promotes effective communication with stakeholders; and
- Provides incentives to government management and employees.¹

A good budget process is ongoing; strategic in nature, and includes a financial and operating plan through which funding decisions are made based upon broad goals and specific priorities.

¹ National Advisory Council on State and Local Budgeting, *Recommended Budget Practices: A Framework For Improved State and Local Government Budgeting* (Chicago: Government Finance Officers Association, 1998), p. 3.

Findings and Recommendations

Summary

Kansas City's budget process incorporates almost all of the best practices developed by the NACSLB. The city has an established and systematic process for developing, adopting and executing the annual budget, and a strong capital budgeting process. Incorporating NACSLB's essential characteristics of a good budget process could further strengthen the city's budget process. More explicit linkages among individual budget practices, and improvements in goal setting, written policies, evaluation, and communication are needed.

Elected officials' primary roles in the budget process are to set goals and priorities, and provide oversight. Opportunities exist in the current budget process to strengthen the role of elected officials.

The NACSLB framework supports a goal-driven budgeting process. Elected officials can strengthen their role in the budget process by establishing a set of clear multi-year goals and annual priorities early in the fiscal year. Target-based budgeting would tie budgeting decisions to the goals and priorities established by elected officials and generate a pool of funds to be allocated to meet the established goals.

Elected officials' oversight role could also be strengthened by quarterly program updates and risk assessments. Quarterly discussions would focus on performance and emerging issues. Periodic in-depth departmental and program reviews could also be used to supplement the budget process. In addition, a professional council research position could help meet the council's information needs.

Communication among elected officials and between elected officials and staff needs to be improved. A professional facilitator to assist with goal and priority setting should be considered. Officials and staff need to re-establish a partnership and work towards improving communication.

Budget Process Incorporates Many Best Practices But Lacks Integration

Kansas City includes almost all of the NACSLB's best practices in the city's budget process. The city does not, however, incorporate the

NACSLB's essential characteristics of a good budget process. Stronger ties between the individual budget practices and organizational goals and priorities, increased focus on results and outcomes, and more effective communication could strengthen the role of elected officials. In addition, written policies and an easier to read budget document would improve the budget process.

City's Budget Process Meets Most NACSLB Budget Practices

Kansas City's Office of Management and Budget has included almost all NACSLB best practices in the budget process. *Recommended Budget Practices: A Framework For Improved State and Local Government Budgeting* contains 59 practices. Kansas City's current budget process incorporates in full or in part 57 of the 59 recommended practices.

Office of Management and Budget staff provide budget information in a consistent format. They have pursued improvements to the budget document and are receptive to ideas for enhancing the budget process.

Kansas City has a well-established and systematic process for developing, adopting, and executing its annual budget. The Office of Management and Budget has procedures for preparing the budget consistent with NACSLB recommended procedural practices. The Office of Management and Budget equips department managers with written instructions for submitting requests, as well as budget calendars showing explicit timelines for each step of the process. Other noteworthy technical and procedural budgeting practices include coordinating budget preparation and review; posting the proposed and adopted budgets on the city's website; evaluating the effect of changes to revenue sources; preparing expenditure projections; providing financial overviews; and monitoring financial conditions and making budget adjustments as needed.

The city's capital budgeting process is strong. Kansas City's capital budgeting process is recognized as excellent.² The process is designed to be comprehensive, inclusive, and fiscally responsible. The capital budgeting process takes a long-term view of needs and costs. Public input has been ensured through the creation of the Public Improvement Advisory Committee (PIAC). PIAC's priority setting framework is designed to improve the condition of the city's infrastructure, while providing funding for neighborhood initiatives and redevelopment related projects. The capital budget process should continue to guide decisions surrounding all capital expenditures in the city.

² Katherine Barrett and Richard Greene, "Grading the Cities: A Management Report Card," *Governing*, February 2000, p. 68.

PIAC is made up of thirteen individuals, two from each council district and a chairperson, who are appointed by the mayor and City Council. PIAC's primary function is to solicit input and advise the City Council on capital improvement funding. After a project rating process, a series of public hearings, and committee deliberations, PIAC makes recommendations for citywide as well as neighborhood projects.

Explicit Linkages Could Strengthen the Budget Process

Implementing individual NACSLB practices alone does not guarantee a good budgeting process. The NACSLB budget process is an iterative cycle that relies on links among individual budget practices. The NACSLB's essential characteristics of a good budget process specifically identify the need for establishing linkages between individual budget practices and broad organizational goals. It is especially important, for example, to link resource allocations and performance evaluation to goals and priorities.

Information and process linkages would improve decision-making.

More explicit linkages between the various types of budget information provided to council could enhance understanding and strengthen the decision-making process. Clear descriptions of program and project costs, long-term effects, alternative scenarios, and trade-offs should be presented in order to enhance elected officials' understanding of the impacts or implications of budget decisions. Such linkages should result in more meaningful and useful information for council discussions and decision-making. For example, tax incentives granted to developers through Tax Increment Financing (TIF) contracts are siphoning a growing proportion of tax revenues. These incentives have been granted without an adequate projection of long-term costs, an analysis of actual benefits, or an established policy.

The NACSLB framework describes a process that ties the individual budget practices together in ways to link goals to allocating resources, monitoring progress, evaluating results, and re-examining goals. In order to gain the full benefit of the individual practices, more explicit linkages between budget practices, budget and performance information, and management processes are needed. Broad goals, tied to approaches to achieve those goals, tied to a budget designed to support those approaches, tied to performance measurement and evaluation, would create a framework linking city management processes with the budgeting process. Such a framework would provide continuity and allow adjustments to be made in response to differences between actual and desired results. A goal-based framework would also guide departments in program development and modification. The city

manager should establish more explicit linkages between budget practices, budget and performance information, and management processes.

Goals and Policies Should Guide Budget Allocations

The *Recommended Budget Practices* framework advocates a goal-driven budgeting process. Kansas City needs to have a set of clearly defined, multi-year goals that provide overall direction and a complete set of written financial policies to serve as a basis for decision making.

Establishing broad goals is central to the NACSLB process.

According to the NACSLB, written goals should reflect stakeholder concerns, needs and priorities, and external factors. The goals should be specific enough to help define the services to be emphasized and to enable difficult budget decisions to be made. Stakeholder opinions should be incorporated into the goal-setting process, as should stakeholder satisfaction with programs and services. Once established, goals should be disseminated and discussed on an ongoing basis.

The *FOCUS Governance Plan*³ examines the responsibilities of the city and the role of citizens, and recommends a long-term financial strategy for the city. Although the plan was intended to provide a framework for decision-making, the FOCUS documents are too lengthy to guide or drive the city's overall strategic or financial decisions. The *FOCUS Governance Plan* provides some direction, but contains more than a hundred recommended actions, which decreases its usefulness as a guide for making budget decisions. FOCUS could, however, be a valuable starting point for elected officials in developing multi-year goals and annual priorities.

The city should have a comprehensive set of written financial policies. The NACSLB budget framework contains a number of practices related to adopting financial policies. Although the city follows the GFOA recommended practices, in some instances it has not formally adopted written financial policies. A comprehensive set of written financial policies would guide staff, facilitate decision-making for elected officials, and improve controls over the city's financial activities. Written financial policies are also useful for communicating to the bond markets. The city manager should prepare a resolution for mayor and City Council consideration proposing the adoption of financial policies suggested by the NACSLB recommended budget practices.

³ FOCUS (Forging Our Comprehensive Urban Strategy) began in 1992 as an inclusive citizen participation process. The FOCUS Governance Plan is one of seven plans adopted by City Council resolution 971268.

A policy covering economic development incentives is also needed. The City Auditor's Office previously made recommendations about the process for approving TIF plans, annual reporting by the TIF Commission on plan performance, annual reporting by the Finance Department on aggregate financial measures related to TIF, and policies that would limit the total spending on development incentives. Based on the large and growing level of tax revenues committed to developers through TIF agreements, the City Auditor's Office has also noted the need to develop explicit public strategies and policies to guide the use of economic incentives. The Finance and Audit Committee is currently considering a TIF policy.

Performance Measures Should Monitor Progress

Monitoring and evaluating performance are key elements in the NACSLB process. The city's current performance measures do not provide a comprehensive means to monitor and guide progress. A number of activities are currently underway to improve the city's performance measures. Performance measures and benchmarking are the cornerstone of program and department evaluations, facilitating adjustments and corrections. A family of related performance measures permits reporting information that is useful to different constituencies.

Although the budget includes performance measures, weaknesses in the current measures limit their usefulness. Many of the city's performance measures are workload oriented, reporting only input and output information.

Work on performance measures is continuing. The Office of Management and Budget is actively working to improve performance reporting. The Office of Management and Budget is in the second year of a three-year project to assist departments in developing performance measures that are more meaningful and outcome based. They produced the first annual *Service Efforts and Accomplishments Report* in fiscal year 2001. The city has also resumed participation in the International City/County Management Association's performance measurement project that gathers and provides performance and benchmarking information for participating cities.⁴

Citizen opinions are also a vital component in program evaluation. The Office of Management and Budget and the City Auditor's Office have conducted citizen surveys since 1996. The city auditor will conduct a

⁴ ICMA, a professional and educational organization of appointed local managers and administrators, maintains the ICMA Center for Performance Management. It assists approximately 120 city and county governments to share data on programs, benchmark their performance to comparable jurisdictions, and improve services.

citizen survey during the current fiscal year. In addition, Resolution 001571 expressed the Council's commitment to improving citizen satisfaction. This resolution directed the city manager to improve service delivery measures. (See Appendix C for Resolution 001571.)

Performance measures are the foundation of program evaluation.

Performance measurement allows oversight and encourages accountability by providing information on the use of public resources. Performance measures are most useful when they are specific, relevant, verifiable, and economical. Performance measures help clarify an organization's priorities and expectations, since what is measured and reported will influence what and how things get done. In the NACSLB model, linking performance measures to goals increases accountability and ties performance to the budget allocation process.

Better performance measures should be developed and reported to meet the needs of different constituencies. The Governmental Accounting Standards Board describes five types of performance measures: input, output, outcome, efficiency, and explanatory variables. To be most effective, a family of performance measures should be developed. There should be a range of performance information that can be used for different audiences and purposes.

Austin, Phoenix, Long Beach, Minneapolis, and Virginia Beach, rated in *Governing* as the top five cities in financial management, all reported using performance measures. Although the degree of use in the budget process varies, some jurisdictions recognize the need to diversify the measures reported and have incorporated more outcome measures in their performance measurement framework.

A balanced family of performance measures can assist in oversight and decision-making. For example, outcome measures that report program results and link program performance to goals should be reported to the Council and the public. Efficiency measures, on the other hand, provide staff with necessary productivity information. Measures can document department accomplishments and can be used to identify areas that need improvement. Performance measures can provide a meaningful connection between city goals and policies, resource allocation, and program performance. The city manager should continue to develop and report more meaningful performance measures.

Budget Document Should Be Easier to Read

The city's budget document consistently receives the GFOA's Distinguished Budget Presentation Award, but could do more to communicate and teach. The city's budget document can be informative to those who are knowledgeable and experienced in the government budgeting process. Its audience, however, includes those who may not be familiar with the government budgeting process or the jargon and technical terms used.

The city's budget document is complex. While it provides a great deal of information, the overwhelming size (574 pages) and the large number of funds (52), programs (142) and subprogram units (69) make it difficult to read for the uninitiated.

The budget document could be a more effective tool for teaching elected officials and the public. In presenting the budget document, the Office of Management and Budget should balance the need for detailed information with the need to present the material in reader-friendly ways so that laypersons can more easily comprehend and use it. Staff should summarize information where appropriate and note where additional detail can be found.

In order to improve communication and the usefulness of the budget document as a teaching tool, the budget officer should make the budget a reader-friendly document.

Elected Officials Should Set Policy and Exercise Oversight

Elected officials can fulfill key roles in the budget process by establishing goals, setting priorities, exercising oversight, and representing the concerns and needs of citizens. Improved communication is needed to more effectively meet these responsibilities. Outside facilitation of goal and priority setting sessions and improved communication with staff should be established. Strengthening the role of elected officials would also result in more complete incorporation of the essential characteristics of the NACSLB good budget process.

The city's current department-driven and incremental budget approach weakens the role of elected officials in the budget process. Target-based budgeting is one way to strengthen the role of elected officials. This budgeting model focuses the budget process on council-established goals

and priorities and more clearly defines roles and responsibilities. Generating a pool of funds to be allocated to meet established goals and priorities will also strengthen the role of elected officials.

Additional tools to provide Council with more information on department and program progress include quarterly performance updates and program risk assessments, periodic in-depth departmental and program reviews; and a professional Council research position. These tools should help keep elected officials informed about emerging issues, improve ongoing oversight of department and program activities, and allow for focused discussions of important issues.

Roles of Elected Officials Previously Defined

Several city reports have addressed the appropriate roles for elected officials, concluding that elected officials are responsible for developing policy and exercising oversight.⁵ The Council, acting as a body, should set goals, establish priorities, and engage in strategic planning. The Council's decision-making should be an open process, with decisions documented through the adoption of formal resolutions and ordinances.

Experts suggest that the primary roles of the City Council in the budget process are to set policy, determine priorities, communicate allocation preferences, and serve as a conduit for public feedback about needs and budget issues.⁶

Elected Officials Should Establish Goals and Priorities to Guide Decision-Making

Elected officials could strengthen their role in the budget process by developing and disseminating statements of broad, multi-year goals and annual priorities. These established goals and priorities will then guide decision-making throughout the planning, development, adoption, and execution phases of the budget process. FOCUS could be a starting point for developing multi-year goals and annual priorities by distilling the guidance offered in the multiple plans. Elected officials should engage in discussions to update goals and establish priorities early in the fiscal year.

⁵ *Red Flag Commission Report*, Red Flag Commission, January 1997; *Performance Audit, Implementation of the Red Flag Commission's Recommendations*, Office of the City Auditor, Kansas City, Missouri, December 1998; and *Report of the Council Ethics/Relations Committee*, Council Ethics/Relations Committee, February 1999.

⁶ Robert L. Bland and Irene S. Rubin, *Budgeting: A Guide for Local Governments*, (Washington, D.C.: International City/County Management Association, 1997), pp. 111-113; and Carl H. Neu, Jr., "10 Habits of Highly Effective Councils", *Public Management*, November 1997, pp. 5-6.

Elected officials in best practices cities set goals and priorities.

Setting goals and priorities in the budget process is a key responsibility of elected officials in the five best practices cities. Although the methods to arrive at goals and priorities vary, elected officials in those cities provide the vision to guide budgeting decisions.

Goal and priority setting should be completed early in the fiscal year. Goals are the foundation of the NACSLB budgeting process. Goals should be stated in ways that guide the allocation of budget dollars. The Code of Ordinances' deadlines for council meetings to establish priorities are November and December 15, too late to provide guidance. To assist departments in evaluating and developing programs, multi-year goals and annual priorities should be established at the beginning of the budget process and early in the fiscal year.

Outside Facilitation Could Benefit Goal and Priority-Setting Sessions

Elected officials' annual priority-setting sessions have been a part of the budget process in recent years. Establishing priorities, however, can be difficult because the process highlights winners and losers and can stimulate immediate controversy and conflict. Just as with setting broad goals, priority setting raises questions of competing values and difficult issues.

Elected officials need to be comfortable dealing with conflict. Conflict is inherent and appropriate in the decision-making process. An outside facilitator, with experience in managing council relationships and conflict, could help elected officials develop and use appropriate methods for dealing with conflict.

A professional facilitator could promote consensus in establishing goals and priorities. A skilled facilitator can provide neutrality and handle the complex small-group dynamics of the priority and goal-setting processes. The mayor and Council should use an outside facilitator for goal and priority setting sessions for the fiscal year 2003 budget.

Council-Staff Partnership Requires Communication and Trust

Communication between Kansas City's elected officials and professional staff needs to be improved. Officials do not believe they are getting complete or timely information. Staff understand that officials want more from them, but find it difficult to determine precisely what the Council wants. A productive relationship between staff and elected officials requires frequent and clear communication and mutual trust. Attention should be given to developing such a partnership.

Communication between elected officials and staff is made difficult because each group brings fundamentally different perspectives to their work. Consequently, while using the same words, staff and elected officials do not always speak the same language. Elected officials focus on constituent needs, and must recognize and balance legitimate, conflicting values when problem solving. In contrast, staff approach problems by gathering facts, doing technical analysis, and abiding by policies designed to ensure efficient and equitable delivery of services. Not understanding this difference in perspectives can breed distrust.⁷

Communication among elected officials and staff can also be made more difficult when officials do not agree amongst themselves. All elected officials may not see themselves as members of a team. As a result, communication with staff may be vague and difficult to interpret.

Current Budget Process Is Department-Driven and Incremental

The current budget process is heavily weighted toward the role of the department advocate, with individual city departments driving the process. Department budget requests are presented as priorities, with department staff or beneficiaries acting as advocates. A department-driven budget overwhelms elected officials with excessive levels of detail. Comprehensive program evaluations and complete needs assessments are not conducted.

In addition, the city's budget process is incremental. This year's adopted budget is used as a starting point for next year's allocations. The competition among programs and departments is limited, with most of the funding treated as fixed allocations and only a small portion viewed as variable.

The decentralized, department-driven budgeting process and incremental budget approach weakens the role of elected officials. Target-based budgeting can move elected officials away from discussions about details and instead focus their effort on policy issues and meaningful choices.

⁷ John Nalbandian, "Council – Staff Partnership," <http://raven.cc.ukans.edu/~nalband/consult/draft.html>, accessed May 29, 2001. Professor Nalbandian is chairman of the Public Administration Department at the University of Kansas and served on the Lawrence, Kansas, City Council from 1991 to 1999, including two terms as mayor.

Target-Based Budgeting Directs Resources Toward Goals and Priorities

Target-based budgeting provides a clearer division of responsibilities and allows elected officials to become more proactive and less reactive in the budgeting process. In target-based budgeting, decisions are made on the basis of established goals and priorities. Target-based budgeting relies on teamwork, communication, and cooperation with a corresponding reduction in divisiveness.

Target-based budgeting could be beneficial to the city. In target-based budgeting the roles of staff and elected officials are well-defined, and budget deliberations become a question of policy rather than of line-item detail. Elected officials and the city manager have control over how citywide priorities are being funded. Elected officials are involved at the outset of the process and retain a meaningful role in budgeting by setting goals and priorities and allocating a pool of funding on the basis of those priorities. Priorities and goals become more achievable because the process rewards the departments for addressing them in their budgets. Department managers control their department's finances, resulting in increased latitude and accountability. Budget office staff exercise financial control over the citywide budget, and are removed from responsibility for sifting through departmental budgets and wish lists and deciding what will be cut.

Although the city's current process includes elements of target-based budgeting, adopting the entire process should strengthen and clarify the roles of participants. Setting goals and priorities early in the process should provide departments with appropriate direction. The prioritization and funding of new or unfunded activities based on council-established goals and priorities should strengthen the role of elected officials in the budget process. To provide a clearer division of responsibilities and allow elected officials to be more proactive in the budgeting process, the city manager should adopt target-based budgeting.

How Target-Based Budgeting Works

- Working with the city manager, elected officials develop specific goals and priorities that are tied to a long-range strategic plan.
- The Office of Management and Budget projects revenue for the upcoming year.
- The city manager sets a target budget amount for each department. The total budget amount is set below expected revenue, creating a pool of unallocated funds.
- The department managers develop budget requests by relating expenditures to city goals and priorities, and by prioritizing expenditures within the maximum target budget levels.
- Department managers develop a prioritized list of the unfunded items that were squeezed out by the target. Consequences of leaving items unfunded and justifications for potential new, but unfunded projects are also submitted.
- The Office of Management and Budget reviews budget proposals for compliance with targets and technical guidance.
- The Office of Management and Budget examines the unfunded lists submitted by the departments and the potential consequences of leaving them unfunded. Unacceptable cuts are returned to departments for revision.
- The departments' unfunded lists are combined and then ranked based upon elected officials' priorities to create a citywide list. Items are funded as far down the list as resources allow.

Source: Professor Irene S. Rubin.

Additional Tools Could Strengthen Elected Officials' Roles

The oversight role of elected officials could also be strengthened through specific, scheduled reporting. Quarterly risk assessment updates on selected programs and performance outcome measures could focus the attention of elected officials at a critical decision level. In-depth departmental and program reviews and a professional research position could also better fulfill the budget information needs of elected officials.

Quarterly updates should highlight risk assessments and report key performance measures. Risk assessment is a City Council responsibility. In order to fulfill this responsibility, Council needs to receive periodic information from staff. Although processes are in place to monitor and make corrections to the city's financial activities, corresponding processes are not in place for program activities. Methods used to report, monitor, and adjust program activities should be strengthened.

The city manager provides quarterly updates on the city's changing financial position. These updates permit an open discussion and review of important financial information. These quarterly updates should be expanded to include program risk assessment reports to identify emerging issues that affect program objectives. For example, during the past year, the food inspection program would have been an appropriate topic for discussion. The program had too few inspectors to keep up with the workload, which resulted in a significant backlog of inspections and concerns about public safety.

Risk assessments, including selective reporting of important performance measures, could strengthen the oversight role of elected officials. Quarterly program risk assessments could provide for scheduled reporting of bad news, and lead to specific opportunities for focused and productive discussions of program issues. Risk assessment discussions should alert elected officials to important emerging issues and permit more timely resolution. The city manager should provide quarterly program performance updates and risk assessment reports to the Finance and Audit Committee.

Periodic in-depth departmental and program reviews could supplement the budget process. Some cities conduct periodic in-depth examinations of department operations. These reviews occur over a multi-year period every 10-15 years. In-depth reviews examine each program's purpose and activities for comparison against other spending alternatives. These reviews can help determine whether to continue funding existing programs, particularly in times when resources are limited.

A previous attempt at in-depth department reviews was not successful. The city performed an initial review of the Water Services and Public Works departments two years ago. Councilmembers found these reviews to be superficial and most councilmembers declined to participate in the second round of department reviews. As a result, the department reviews were cancelled.

NACSLB practices emphasize evaluation and adjustment. Periodic in-depth reviews examining department and program operations can provide council with information and the opportunity to ask questions, and can be the starting point for policy discussions. The city manager should determine whether elected officials are interested in participating in departmental reviews, identify the information that those officials believe would be needed for such reviews, and facilitate the conduct of the reviews.

Council research position could help fulfill council information needs. Councilmembers have many informational needs; however, they are sometimes uncertain what level of information they should request from staff.

In 1993, at the request of a former councilmember, the City Auditor's Office conducted a review of twelve comparable cities to determine how Kansas City ranked in the number, type, and cost of direct support staff of city councils. This review showed that Kansas City's City Council support staff budget was lower than the average. It also showed that Kansas City had the average number of staff support positions for its City Council, but no professional positions, unlike six other cities.⁸

Some state legislatures have professional staff to support and provide research and informational assistance to elected officials. These staff are well equipped to answer questions. They are resourceful in finding records and documentation of issues and actions taken in the past, and supplemental information for pending issues. They are expected to be neutral and thorough in conveying needed facts and historical information to elected officials. The city manager should establish a professional staff position to provide the City Council with information and policy research.

⁸ Memorandum from City Auditor Mark Funkhouser to Councilmember Ronald Finley, February 9, 1993.

Recommendations

1. The city manager should establish more explicit linkages between budget practices, budget and performance information, and management processes.
2. The city manager should prepare a resolution for mayor and City Council consideration proposing the adoption of written financial policies.
3. The city manager should continue to develop and report more meaningful performance measures.
4. The budget officer should make the budget document easier to read.
5. The Finance and Audit Committee should recommend that the mayor and City Council update multi-year goals and annual priorities early in the fiscal year.
6. The Finance and Audit Committee should recommend that the mayor and City Council use an outside facilitator for goal and priority setting sessions for the fiscal year 2003 budget.
7. The city manager should adopt target-based budgeting.
8. The city manager should provide quarterly program performance updates and risk assessments to the Finance and Audit Committee.
9. The city manager should determine whether elected officials are interested in participating in departmental reviews, identify the information that those officials believe would be needed for such reviews, and facilitate the conduct of the reviews.
10. The city manager should establish a city legislative information and research position that would serve as a professional support staff for the Council as a whole.

Appendix A

Mayor's Request for Review of Budget Process

CITY OF FOUNTAINS
HEART OF THE NATION



KANSAS CITY
MISSOURI

Office of the Mayor

Mayor Kay Barnes

29th Floor, City Hall
414 East 12th Street
Kansas City, Missouri 64106-2778

(816) 513-3500
Fax: (816) 513-3518

Date: February 28, 2001

To: Councilmember Evert Asjes, Chair, and Members, Finance and Audit Committee

From: Mayor Kay Barnes

Subject: Review of the City's Budget Process

Over the past several months, I have had a growing interest in a revamping of our overall budget process and the role that we the elected officials play in it. As a result, I am requesting that the Finance and Audit Committee review our current budget process and recommend to the Mayor and City Council a strategy that will significantly increase our oversight and decision making functions.

I recognize that this is an ambitious undertaking that may take several months to complete. I request that the committee discuss how to go about conducting the review and provide an initial update to the Council at our Business Session on March 15.

Appendix B

Comparison of City's Practices to NACSLB's Recommended Budget Practices

Comparison of City's Practices to NACSLB's Recommended Budget Practices

The following pages contain a comparison of the city's budget practices to the practices recommended by the National Advisory Council on State and Local Budgeting (NACSLB) in its *Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting*. To determine the extent to which the city's budget process incorporates recognized best budgeting practices, we compared the city's processes to the 59 practices recommended by NACSLB.

Office of Management and Budget and Finance Department staffs provided information on how the city addresses the recommended practices. They also provided documentation and examples of reports and information supporting the city's practices.

Staff from the City Auditor's Office and Professor Irene S. Rubin compared the city's practices to the NACSLB recommended practices, independently rated the city's performance on each practice as implemented, partially implemented, or not implemented and discussed variations. An overall implementation rating for each practice was then assigned. Those ratings are provided in this appendix.

City Practices Compared to NACSLB's Recommended Budget Practices

ESTABLISH BROAD GOALS TO DIRECT GOVERNMENT DECISION MAKING	NACSLB PRACTICES		IMPLEMENTED?
	Assess Community Needs, Priorities, Challenges, and Opportunities		
	1.1	Identify stakeholder concerns, needs, and priorities	Yes
	1.2	Evaluate community condition, external factors, opportunities, and challenges	Yes
	Identify Opportunities and Challenges for Government Services, Capital Assets, and Management		
	2.1	Assess services and programs, and identify issues, opportunities, and challenges	Partially
	2.2	Assess capital assets, and identify issues, opportunities, and challenges	Partially
	2.3	Assess governmental management systems, and identify issues, opportunities, and challenges	Partially
	Develop and Disseminate Broad Goals		
	3.1	Identify broad goals	Partially
	3.2	Disseminate goals and review with stakeholders	Partially
DEVELOP APPROACHES TO ACHIEVE GOALS	Adopt Financial Policies		
	4.1	Develop policy on stabilization funds	Yes
	4.2	Develop policy on fees and charges	Yes
	4.3	Develop policy on debt issuance and management	Partially

DEVELOP APPROACHES TO ACHIEVE GOALS (CONTINUED)	4.3a	Develop policy on debt level and capacity	Yes
	4.4	Develop policy on use of one-time revenues	Partially
	4.4a	Evaluate the use of unpredictable revenues	Partially
	4.5	Develop policy on balancing the operating budget	Partially
	4.6	Develop policy on revenue diversification	Partially
	4.7	Develop policy on contingency planning	No
	Develop Programmatic, Operating, and Capital Policies and Plans		
	5.1	Prepare policies and plans to guide the design of programs and services	Partially
	5.2	Prepare policies and plans for capital asset acquisition, maintenance, placement, and retirement	Partially
	Develop Programs and Services That Are Consistent with Policies and Plans		
	6.1	Develop programs and evaluate delivery mechanisms	No
	6.2	Develop options for meeting capital needs and evaluate acquisition alternatives	Yes
	6.3	Identify functions, programs, and /or activities of organizational units	Yes
	6.4	Develop performance measures	Partially
	6.4a	Develop performance benchmarks	Partially
	Develop Management Strategies		
	7.1	Develop strategies to facilitate attainment of program and financial goals	Partially
	7.2	Develop mechanisms for budgetary compliance	Yes
	7.3	Develop the type, presentation, and time period of the budget	Partially

DEVELOP A BUDGET CONSISTENT WITH APPROACHES TO ACHIEVE GOALS	Develop a Process for Preparing and Adopting a Budget	
	8.1 Develop a budget calendar	Yes
	8.2 Develop budget guidelines and instructions	Yes
	8.3 Develop mechanisms for coordinating budget preparation and review	Yes
	8.4 Develop procedures to facilitate budget review, discussion, modification, and adoption	Partially
	8.5 Identify opportunities for stakeholder input	Partially
	Develop and Evaluate Financial Options	
	9.1 Conduct long-range financial planning	Partially
	9.2 Prepare revenue projections	Yes
	9.2a Analyze major revenues	Yes
	9.2b Evaluate the effect of changes to revenue source rates and bases	Yes
	9.2c Analyze tax and fee exemptions	Partially
	9.2d Achieve consensus on a revenue forecast	Yes
	9.3 Document revenue sources in a revenue manual	Yes
	9.4 Prepare expenditure projections	Yes
	9.5 Evaluate revenue and expenditure options	Partially
	9.6 Develop a capital improvement plan	Yes
	Make Choices Necessary to Adopt a Budget	
	10.1 Prepare and present a recommended budget	Yes
	10.1a Describe key policies, plans, and goals	Yes

DEVELOP A BUDGET CONSISTENT WITH APPROACHES TO ACHIEVE GOALS (CONTINUED)	10.1b Identify key issues	Yes
	10.1c Provide a financial overview	Yes
	10.1d Provide a guide to operations	Yes
	10.1e Explain the budgetary basis of accounting	Yes
	10.1f Prepare a budget summary	Yes
	10.1g Present the budget in a clear, easy-to-use format	Partially
	10.2 Adopt the budget	Yes
EVALUATE PERFORMANCE AND MAKE ADJUSTMENTS	Monitor, Measure, and Evaluate Performance	
	11.1 Monitor, measure, and evaluate program performance	Partially
	11.1a Monitor, measure, and evaluate stakeholder satisfaction	Yes
	11.2 Monitor, measure, and evaluate budgetary performance	Yes
	11.3 Monitor, measure, and evaluate financial condition	Yes
	11.4 Monitor, measure, and evaluate external factors	Partially
	11.5 Monitor, measure, and evaluate capital program implementation	Partially
	Make Adjustments as Needed	
	12.1 Adjust the budget	Yes
	12.2 Adjust policies, plans, programs, and management strategies	Partially
	12.3 Adjust broad goals, if appropriate	Partially

Appendix C

Resolution No. 001571

RESOLUTION NO. 001571

Expressing the Council's commitment to improve citizen satisfaction with City services by establishing priorities for improvement by reassessing budget priorities and directing the City Manager to establish goals, to be reported to the City Council within 60 days, setting a time frame for improvement in measurable citizen satisfaction.

WHEREAS, the City Council received from the City Auditor the 2000 Kansas City Citizen Survey in April, 2000; and

WHEREAS, the City Council received from the City Auditor the 2000 Benchmarking Report in November, 2000; and

WHEREAS, these reports reflect significant citizen dissatisfaction with certain City services; and

WHEREAS these reports reflect a significant variance between the satisfaction of Kansas City residents with Kansas City government and residents of other cities with their government services; and

WHEREAS, development of performance measures are an important element of the Kansas City Government Optimization initiative now being conducted; and

WHEREAS, the City Manager should provide the leadership to establish goals for specific areas of improvement and to apply all feasible methods to achieve these goals; and

WHEREAS, it is appropriate for the Board of Parks and Recreation Commissioners and the Board of Police Commissioners to initiate similar efforts for their agencies; NOW, THEREFORE,

BE IT RESOLVED BY THE COUNCIL OF KANSAS CITY:

Section 1. Budget priority reconsideration. That the City Council will review budget priorities to consider specific services that must be subject to improved performance with the objective of improving services and citizen satisfaction.

Section 2. Service areas reflected in budget priorities. That the City Council will insure that its budget priorities and associated policies reflect the following service areas identified in the most recent Citizen Survey:

- Those identified as needing the most attention in the next two years;
- Those with the highest percentage reporting dissatisfaction; and
- Those with satisfaction percentages most below the average satisfaction percentage for the comparison cities.

001571

Section 3. City Manager responsibility to establish improvement goals. That the City Manager will establish goals for the improvement of citizen satisfaction as measured by future citizen surveys. These goals should outline annual improvements over the next three years:

- To improve objective service delivery measures;
- To increase the percentage of persons responding as satisfied or very satisfied;
- To reduce the percentage of persons responding as dissatisfied or very dissatisfied; and
- To reduce the disparity between City residents responding as satisfied or very satisfied, and the average percentage for comparison cities.

The City Manager is requested to propose for adoption by the City Council within 60 days of adoption of this Resolution the areas to be emphasized for improvement and likely service delivery measures.

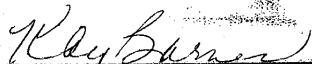
Section 4. Reporting additional measurement efforts. That the City Auditor and City Manager will cooperate in presenting to the City Council future annual citizen surveys and semi-annual reports by the City Manager on other measurements of service efforts and accomplishments for City services and other activities intended to improve service delivery and to increase citizen satisfaction with City services. These reports will be presented in City Council business sessions without first being referred to any committee of the City Council.


Section 5. Current service delivery initiatives. That the City Manager shall report to the City Council on efforts underway and plans in place and under development to improve services and address areas of dissatisfaction identified in the citizen's survey.

Section 6. Parks and Recreation and Police activities. That the Board of Parks and Recreation Commissioners and the Board of Police Commissioners are asked to mirror this 3-year improvement plan within the Parks and Recreation Department and the Police Department.



Authenticated as Passed


KAY BARNES, Mayor


Catherine T. Rocha, City Clerk

DATE PASSED **NOV 30 2000**

Appendix D


City Manager's Response



OFFICE OF THE CITY MANAGER

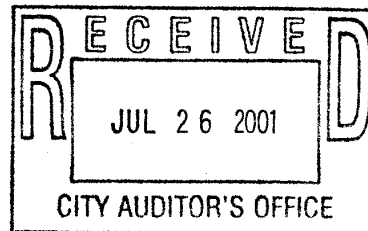
DATE: July 26, 2001
TO: Mark Funkhouser, City Auditor
FROM: Robert L. Collins, City Manager
SUBJECT: Budget Process Practices Audit

Please find the attached response to your audit of the Special Report Budget Process Practices.



Robert L. Collins

RLC:emm
Attachment



City Manager's Response to the Special Report on Budget Process Practices

Recommendation 1: The city manager should establish more explicit linkages between budget practices, budget and performance information, and management processes.

Agree. The City Auditor's report makes the point that the current budget process incorporates in full or in part 57 of the 59 best practices recommended by the GFOA. Additionally, the report states, "The GFOA's essential characteristics of a good budget process specifically identify the need for establishing linkages between individual budget practices and broad organizational goals." The Council has, for the past five years, engaged in a budget priority setting process that has produced a set of annual funding and policy priorities. Staff has been directed to develop budget requests according to these priorities and the submitted budgets to the Council have followed these priorities, as reflected in the budget transmittal letters for each budget.

Council should develop a new process, separate and distinct from the budget process, to review the long-term FOCUS goals and strategies on a biennial basis. Each Council would have two opportunities to either confirm or change the city's comprehensive and strategic plan and set intermediate goals that would further implement these goals and strategies.

As an initial step towards developing this new process, the city has contracted with The Abrahams Group to provide consulting services on performance management issues. FOCUS goals and strategies will be the underlying principle for this work. Part of the scope of this contract includes working with Council to develop community level outcomes and outcome indicators that are directly related to FOCUS. Additional work would follow to align departments' competitive business plans with organizational goals and measure goal accomplishment using balanced scorecard concepts. This will improve the links between budget practices, budget information/performance measures, day-to-day management practices, and long-term organizational goals and strategies.

Recommendation 2: The city manager should prepare a resolution for mayor and City Council consideration proposing the adoption of written financial policies.

Agree. The FOCUS Governance Plan has been the policy guide for financial policies since Council adopted it. Staff will prepare for Council consideration a set of financial management policies (e.g., budget priorities, debt management, revenue generation, user fee cost recovery, procurement, cash management, economic development, subsidy criteria, and so forth) that draw upon the FOCUS strategies, Council resolutions, the KC-GO initiative, the long-term goals established by the City Council, and best practices. This would consolidate all of the policies into one document.

Recommendation 3: The city manager should continue to develop and report more meaningful performance measures.

Agree. We are in the second year of a three-year project to develop and report more meaningful and usable performance measures for management and Council. Three accomplishments during the last fiscal year included the publication of the first Service Efforts and Accomplishments Report in September 2000, the creation of 200 activity based costing accounts, and the inclusion of 183 additional measures in the budget document. These additional measures included 65 new outcome measures and 114 new efficiency measures.

The contract with The Abrahams Group will assist in the development of a model that will meet the City's performance management objectives and incorporate the performance measures and results of the KCGO program. This model will be the guiding management concept incorporating FOCUS, competitive business plans, zero based budgeting, activity based costing and other initiatives resulting from KCGO and other city efforts. An improved array of performance measures will help the City Manager recommend to Council a clear set of budget appropriations and revenue sources linked to organizational goals. Stronger performance measures will help management evaluate, on an ongoing basis, the effectiveness and efficiency of individual programs and the employment teams who run these programs. This will strengthen the link between performance measures and management processes.

Recommendation 4: The budget officer should make the budget document easier to read.

Agree. The City has received the GFOA Distinguished Budget Presentation Award, which is the highest form of recognition in governmental budgeting, every year since 1987. This award is based on successfully meeting 26 criteria as determined by a panel of three government finance and budget professionals. These criteria rate the budget as a policy document, as a financial plan, as an operations guide, and as a communications device. The document was rated as proficient in all four areas for the 2000-01 Budget Award.

However, this doesn't mean that changes to the budget format couldn't or shouldn't be made. I recommend the development of a separate document that would convey the budget in summary and graphic form and from a citizen's point of view. This document would provide more information about city services and programs as well as relating how this budget accomplishes the goals established by Council. I am open to any ideas that Council may have on making the budget document more reader friendly.

Note: Recommendations 5 and 6 are directed to the Finance and Audit Committee

Recommendation 7: The city manager should adopt target-based budgeting.

Agree. The Kansas City budget process has included elements of target budgeting for several years. For the past two years, departments were instructed to submit two alternatives for achieving a 2.5% reduction in operating expenses. The 2002-03 budget instructions direct all general fund supported departments, except Fire and Police, to provide information on the strategies they would employ to achieve a 5% reduction, including program reductions or eliminations, increased program revenues, or efficiencies that could be generated in future years. The current process also includes the submittal of a prioritized set of decision packages for new or expanded services. These decision packages are reviewed and analyzed for funding in the proposed budget.

These alternatives and decision packages are and have been used to assist staff in developing a balanced budget that addresses the priorities of the Council. Under the City Charter the City Manager is responsible for proposing a balanced budget to the Council for their consideration and approval.

Recommendation 8: The city manager should provide quarterly program performance updates and risk assessments to the Finance and Audit Committee.

Agree. Quarterly reviews of the current year revenues and expenditures are already provided to the Council. A new section that identifies emerging issues impacting program objectives will be developed and included in future quarterly reports.

Recommendation 9: The city manager should determine whether elected officials are interested in participating in departmental reviews, identify the information that those officials believe would be necessary for such reviews, and facilitate the conduct of the reviews.

Agree. The current budget process includes two opportunities for department directors to meet with Council in order to discuss department programs and objectives. The meetings held in September have focused on current fiscal year issues and the meetings held after the new budget is submitted to Council are focused on what the new budget will provide for department programs.

The review of Public Works and Water Services conducted in the summer of 1999 and Parks and Recreation in the summer of 2000 provided a detailed review of the departments' budget, programs and services. The site visits conducted by Council were invaluable in terms of allowing Council to connect expenditure and staffing information with actual service delivery.

Staff will work with the Finance and Audit Committee to determine whether the Council is interested in these reviews as well as the style and content of these reviews.

Recommendation 10: The city manager should establish a city legislative information and research position that would serve as a professional support staff for the Council as a whole.

Agree. I will propose the addition of an Assistant City Manager position to act as a liaison to the Council for legislative information and assure professional support for the City Council and Mayor.